

**Manning Municipal Gas Department  
Independent Auditor's Report  
Basic Financial Statements and  
Schedule of Findings**

**December 31, 2011 and 2010**



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**Manning Municipal Gas Department  
Officials  
December 31, 2011**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Ehlers	Chairperson	June 2013
Randy Facile	Secretary	June 2014
Dixon Cole	Trustee	June 2016
Keith Kelderman	Trustee	June 2017
Allen Rix	Trustee	June 2012
Kenneth Spies	Manager	Indefinite

# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

February 15, 2012

### Independent Auditor's Report

To the Board of Trustees  
Manning Municipal Gas Department  
Manning, IA 51455

I have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the Manning Municipal Gas Department (a municipal utility) as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Manning Municipal Gas Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the financial statements of Manning Municipal Gas Department are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Gas Department.

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

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Missouri

February 15, 2012  
Manning Municipal Gas Department  
Independent Auditor's Report

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Manning Municipal Gas Department at December 31, 2011 and 2010 and the respective changes in its financial position and the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* I have also issued my report dated February 15, 2012, on my consideration of the Gas Department's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis information on pages 6 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. I have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

 M. J. Murphy Associate, CPA, P.C.





## **Manning Municipal Gas Department Management's Discussion and Analysis**

The Manning Municipal Gas Department provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Utility is for the year ended December 31, 2011. Management encourages readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **2011 Financial Highlights**

The Utility's net operating revenues activity increased 10%, or \$101,405 from 2010 to 2011.

The Utility's operating expenses decreased 7.5%, or \$75,323 from 2010 to 2011.

The Utility's net assets of business type activities increased \$175,354 from December 31, 2010 to 2011.

### **Using This Annual Report**

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Financial Statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These provide information about the activities of Manning Municipal Gas Department as a whole and present an overall view of the Utility's finances.

Notes to financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

## **Manning Municipal Gas Department Management's Discussion and Analysis**

### **Reporting the Utility's Financial Activities**

#### Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information, which helps answer this question. These statements included all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all the Utility's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Utility's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report the following activity:

Business type activities include the gas utility. These activities are financed primarily by user charges.

#### Fund Financial Statements

The Utility has one fund:

Proprietary funds account for the Utility's Enterprise Fund. This fund reports services for which the Utility charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. The Enterprise Fund includes the gas utility, considered to be the major fund of the Utility.

## Manning Municipal Gas Department Management's Discussion and Analysis

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets as a statement of cash flows.

### Basic Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities.

#### Net Assets at Year-end

##### Business Type Activity - Enterprise Fund

	<u>Year Ended</u>	
	<u>12/31/11</u>	<u>12/31/10</u>
Current assets	\$ 2,343,666	\$ 2,157,467
Capital assets	588,241	599,860
Other assets	619,234	639,234
Total assets	<u>\$ 3,551,141</u>	<u>\$ 3,396,561</u>
Current liabilities	<u>\$ 77,223</u>	<u>\$ 97,997</u>
Net assets:		
Invested in capital assets	\$ 588,241	\$ 599,860
Restricted	406,410	408,560
Unrestricted	2,479,267	2,290,144
Total net assets	<u>\$ 3,473,918</u>	<u>\$ 3,298,564</u>

Current assets constitute 66% of total assets and exceed current liabilities by thirty to one. Capital assets constitute 17% of total assets and represent the cost of infrastructure, buildings and equipment and is reported net of accumulated depreciation. Other assets constitute 17% of total assets and consist of the long term portion of notes receivable from the City of Manning and Manning Municipal Cable and Television System Utility. Net assets of business type activities increased approximately \$175,000, or 5% over 2010.

**Manning Municipal Gas Department  
Management's Discussion and Analysis**

Changes in Net Assets  
For the Year ended December 31,

Business Type Activity - Enterprise Fund

	<u>2011</u>	<u>2010</u>
Revenues:		
Charges for services	\$ 1,069,223	\$ 967,818
Interest income	44,679	43,512
Miscellaneous income	3,558	3,894
Total revenues	<u>1,117,460</u>	<u>1,015,224</u>
Operating expenses:		
Purchased gas	490,708	574,061
Distribution operations	163,048	160,944
Administrative and general	270,716	264,790
Total operating expenses	<u>924,472</u>	<u>999,795</u>
Other expenses:		
Community contributions	17,634	18,213
Total expenses	<u>942,106</u>	<u>1,018,008</u>
Increase (decrease) in net assets	175,354	(2,784)
Net assets, beginning of year	<u>3,298,564</u>	<u>3,301,348</u>
Net assets, end of year	\$ <u>3,473,918</u>	\$ <u>3,298,564</u>

Total revenues increased by approximately \$102,000, or 10% for the year ended December 31, 2011. The principal factor for this increase is increased consumer usage with residential sales leading the pack. The gross profit on gas sales rose significantly to 54% for 2011, as compared to 39% for 2010, and 27% for both 2009 and 2008. The reason for this is that residential and commercial gas margins are relatively higher than for interruptible and large volume customers and constitute 76% and 24% of gas sales, respectively.

Total expenses also declined by approximately \$75,000, or 7.5% for the year ended December 31, 2011. Purchased gas declined by 15% from 2010. Distribution expenses increased by 1%. Administrative and general expenses increased by approximately \$5,900, or 2%.

## **Manning Municipal Gas Department Management's Discussion and Analysis**

As a result of the above mentioned factors, the Gas Department experienced a \$175,354 increase to net assets for the year ended December 31, 2011.

### **Budgetary Highlights**

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of the Manning Municipal Gas Department for the period July 1, 2010 to June 30, 2011.

The Utility presents its budgetary information on a cash basis for the period January 1, 2011 to December 31, 2011. Disbursements did not exceed the final budgeted amounts.

### **Future Financial Statement Impact**

Natural gas supplies continue to be plentiful and prices moderate as of December 31, 2011. This trend is expected to continue through 2012.

### **Requests for Information**

Requests for additional information can be made to the Manning Municipal Gas Department's manager, Ken Spies, 715 Third Street, Manning, Iowa 51455.



## **Basic Financial Statements**

**Exhibit A**

**Manning Municipal Gas Department  
Statement of Net Assets  
December 31, 2011 and 2010**

**ASSETS**

	<u>2011</u>	<u>2010</u>
Current Assets		
Unrestricted		
Cash	\$ 81,803	\$ 28,048
Investments	1,449,804	1,425,654
Accounts receivable, net of allowance	88,474	50,419
Other receivable	107,534	14,439
Unbilled usage	63,545	84,838
Accrued interest receivable	15,789	20,834
Inventory	106,388	100,991
Prepaid expenses	3,919	3,684
Notes receivable, other municipal departments - current portion	<u>20,000</u>	<u>20,000</u>
Total unrestricted current assets	1,937,256	1,748,907
Restricted		
Customer deposits	6,410	8,560
Investments	<u>400,000</u>	<u>400,000</u>
Total restricted current assets	406,410	408,560
Total current assets	2,343,666	2,157,467
Property and Equipment		
Land, plants and mains	1,229,685	1,228,596
Warehouse	68,861	68,861
Shop equipment	109,178	102,806
Office equipment and fixtures	44,646	42,191
Office improvements	36,084	36,084
Transportation equipment	68,298	61,558
Border station	<u>16,232</u>	<u>16,232</u>
	1,572,984	1,556,328
Less accumulated depreciation	<u>984,743</u>	<u>956,468</u>
Total property and equipment	588,241	599,860
Other Assets		
Notes receivable, other municipal departments net of current portion	<u>619,234</u>	<u>639,234</u>
Total assets	\$ <u>3,551,141</u>	\$ <u>3,396,561</u>

See accompanying notes to financial statements.



**Exhibit A**  
**Continued**

**Manning Municipal Gas Department**  
**Statement of Net Assets**  
**December 31, 2011 and 2010**

**LIABILITIES AND NET ASSETS**

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	\$ 56,106	\$ 72,835
Customer credits	-0-	364
Accrued vacation and sick leave payable	11,147	12,196
Sales and use taxes payable	2,880	3,375
Property taxes payable	680	667
Total payables from unrestricted current assets	<u>70,813</u>	<u>89,437</u>
Payable from restricted current assets:		
Customer deposits	6,410	8,560
Total current liabilities	<u>77,223</u>	<u>97,997</u>
Net Assets		
Invested in capital assets, net of related debt	588,241	599,860
Restricted for:		
Customer deposits	6,410	8,560
Capital improvement	100,000	100,000
Depreciation	300,000	300,000
Unrestricted	2,479,267	2,290,144
Total net assets	<u>3,473,918</u>	<u>3,298,564</u>
Total liabilities and net assets	\$ <u>3,551,141</u>	\$ <u>3,396,561</u>

See accompanying notes to financial statements.

**Exhibit B**

**Manning Municipal Gas Department  
Statements of Revenues, Expenses, and  
Changes in Net Assets  
For the years ended December 31, 2011 and 2010**

	2011	2010
Operating Revenues		
Gas sales		
Residential	\$ 580,026	\$ 519,648
Commercial	232,449	217,462
Interruptible	123,452	90,571
Large volume	129,519	116,722
Total gas sales	1,065,446	944,403
Merchandise sales, net of cost	3,027	15,678
Service calls	640	710
Other revenue	110	7,027
Total	3,777	23,415
Total operating revenue	1,069,223	967,818
Operating Expenses		
Purchased gas	490,708	574,061
Distribution expenses		
Management labor	36,060	34,055
Line labor	85,585	79,865
Chemicals	3,991	-0-
Maintenance materials and supplies	26,091	33,327
Transportation and freight	5,880	9,037
Education	149	170
Miscellaneous	5,292	4,490
Total distribution expenses	163,048	160,944
Administrative and general expenses		
Advertising	20	-0-
Bad debts	1,796	759
Depreciation	39,035	33,226
Dues	7,328	10,149
Group insurance	48,834	51,583
Insurance - general	13,036	11,369
Integrity management	-0-	190
Maintenance - copiers and computers	4,219	3,777
Meeting and travel	-0-	80
Miscellaneous	6,631	6,438
Manager labor	36,120	35,432

**Exhibit B**  
**Continued**

**Manning Municipal Gas Department**  
**Statements of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the years ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Expenses - continued		
Administrative and general expenses - continued		
Office labor	\$ 44,283	\$ 42,958
Office supplies and maintenance	1,926	3,187
Official publications	746	901
Payroll taxes	15,335	14,434
Retirement contributions	14,625	12,368
Professional services	7,087	9,367
Real estate taxes	692	679
Rebate program/comfort plus homes	7,180	6,370
Safety	380	279
Trustees	2,995	2,995
Utilities, rent, city assessment	18,448	18,249
Total administrative and general expenses	<u>270,716</u>	<u>264,790</u>
Total operating expenses	<u>924,472</u>	<u>999,795</u>
Operating income (loss)	144,751	(31,977)
Non-operating Revenues (Expenses)		
Interest income	44,679	43,512
Miscellaneous income	3,558	3,894
Contribution - Housing Rehab Project	(2,839)	(2,167)
Contribution - Economic Development	(13,000)	(14,250)
Contribution - Project Trees	(250)	(250)
Contribution - Home Fitness Program	(1,545)	(1,546)
Net non-operating revenues (expenses)	<u>30,603</u>	<u>29,193</u>
Changes in net assets	175,354	(2,784)
Net assets, beginning of year	<u>3,298,564</u>	<u>3,301,348</u>
Net assets, end of year	\$ <u>3,473,918</u>	\$ <u>3,298,564</u>

See accompanying notes to financial statements.

**Exhibit C**

**Manning Municipal Gas Department  
Statements of Cash Flows  
For the years ended December 31, 2011 and 2010**

	2011	2010
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,064,169	\$ 998,513
Cash payments for goods and services	(810,349)	(828,723)
Cash payments to employees	(204,147)	(191,386)
Net cash provided by operating activities	<u>49,673</u>	<u>(21,596)</u>
Cash Flows From Capital and Related Financial Activities:		
Non operating income received	3,558	3,894
Change in customer deposits	(2,150)	805
Acquisition and construction of capital assets	(27,416)	(6,365)
Net cash used for capital and related financing activities	<u>(26,008)</u>	<u>(1,666)</u>
Cash Flows From Investing Activities:		
Interest received	49,724	57,388
Community contributions	(17,634)	(18,213)
Note payments received	20,000	20,000
Net cash used for investing activities	<u>52,090</u>	<u>59,175</u>
Net increase in cash	75,755	35,913
Cash, Beginning of year	<u>1,862,262</u>	<u>1,826,349</u>
Cash, End of year	\$ <u>1,938,017</u>	\$ <u>1,862,262</u>

See accompanying notes to financial statements.

**Exhibit C**  
**Continued**

**Manning Municipal Gas Department**  
**Statements of Cash Flows**  
**For the years ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating Income	\$ 144,751	\$ (31,977)
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	39,035	33,226
Net (increase) decrease in:		
Accounts receivables and unbilled usage	(109,857)	46,586
Inventories	(5,397)	2,862
Prepaid expenses	(235)	(225)
Net increase (decrease) in:		
Accounts payable	(16,729)	(59,162)
Accrued wages and vacation payable	(1,049)	924
Customer credits	(364)	(15,891)
Sales tax payable	(495)	2,048
Other accrued expenses	13	13
	<u>49,673</u>	<u>(21,596)</u>
Net cash provided by operating activities	\$ <u>49,673</u>	\$ <u>(21,596)</u>
Reconciliation of cash and cash equivalents at		
year end to specific assets included on the		
Balance Sheet		
Current assets:		
Cash	\$ 81,803	\$ 28,048
Investments	1,449,804	1,425,654
Restricted assets:		
Depreciation reserve	300,000	300,000
Capital improvements	100,000	100,000
Customer deposits	6,410	8,560
	<u>1,938,017</u>	<u>1,862,262</u>
Total cash	\$ <u>1,938,017</u>	\$ <u>1,862,262</u>

See accompanying notes to financial statements.



## **Notes to Financial Statements**

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2011 and 2010**

**(1) Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Manning Municipal Gas Department is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Gas Department is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Manning Municipal Gas Department has no component units which meet the Governmental Accounting Standards Board (GASB) criteria.

The financial statements include only those funds of the Gas Department and are not intended to present all funds of the City of Manning, Iowa.

**B. Jointly Governed Organizations**

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. Utility officials are members of the following boards: Manning Municipal Communication and Television System Utility, Manning Betterment Foundation, and Manning Economic Development Corporation, Templeton Manning Joint Gas Service Utility Board, Aspinwall Manning Joint Gas Service Utility Board, Iowa Municipal Utilities Association, Clayton Energy Buying Group, and American Public Gas Association.

**C. Nature of Business**

Formed as a Utility in 1961, the Manning Municipal Gas Department distributes natural gas to the residents and businesses of Manning, Iowa. In 1992, the Gas Department expanded distribution to Templeton, Iowa and, in 1997, to Aspinwall, Iowa. The Utility's revenues are dependent upon the economic condition of its residential and commercial customers.



**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**(1) Summary of Significant Accounting Policies (Continued)**

**D. Measurement Focus and Basis of Accounting**

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund of the Gas Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility Board's principal ongoing operations. The principal operating revenues of the Gas Department are charges to customers for sales and service. Operating expenses for the Gas Utility include the cost of sales and services, administration expenses and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

The Gas Department maintains its accounting records on the basis of cash receipts and disbursements. For financial reporting purposes, accruals are recorded in conformity with U.S. generally accepted accounting principles.

The Statement of Net Assets presents the Gas Department's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those capital assets.

**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**(1) Summary of Significant Accounting Policies (Continued)**

D. Measurement Focus and Basis of Accounting (Continued)

Restricted net assets result when constraints placed on the use of net assets are externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the criteria of the two preceding categories. Unrestricted net assets often have constraints on resources that management can remove or modify.

E. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis. The budget of the Utility is submitted with that of the City of Manning following required public notice and hearing. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Cash and Cash Equivalents

Cash consists of checking accounts, cash on hand, and savings. Investments consist of certificates of deposit. For purposes on the Statement of Cash Flows, the Gas Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

G. Accounts Receivable

Accounts receivable are presented at their net realizable values. The allowance for doubtful accounts is \$612 at December 31, 2011 and 2010.

Customer meters are read monthly. Manning customers are billed the 1<sup>st</sup> of the month and Templeton, Aspinwall and AGP customers are billed on the 13<sup>th</sup> of each month. Collection procedures are determined by Commerce Commission Rules as follows: normal customers have twenty days to remit payment whereas budget plan customers have thirty days. No surcharges or interest charges are added to delinquencies. Shut off procedures also differ by season: April 1<sup>st</sup> through October 31<sup>st</sup> favor the Utility while November 1<sup>st</sup> through March 31<sup>st</sup> favor the consumer.

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2011 and 2010**

**(1) Summary of Significant Accounting Policies (Continued)**

H. Unbilled Usage

The Utility estimates unbilled usage by prorating the total billing based on the number of days still in the accounting period versus the total number of days in the billing period.

I. Inventory

Material and supplies are valued at the lower of cost or market on a per item basis. Gas inventory is valued at the weighted average cost of gas per MMBtu's in storage.

J. Restricted Assets

The Utility includes in restricted assets those amounts received from customers as deposits on their gas accounts. Other restricted assets include amounts set aside as a Depreciation and Capital Improvement Reserve.

K. Capital Assets

Capital assets include property, plant and equipment. Capital assets are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. The Utility records a half year's depreciation in both the year of acquisition and retirement and is computed over the following useful lives:

Plant and mains	30-40 years
Office and shop equipment	5-10 years
Vehicles	5 years
Warehouse and office improvements	20 years
Border station - odorizer	20 years

Expenses for maintenance, repairs and minor replacements are charged to operations. Expenses for major repairs and betterments are charged to property, plant and equipment accounts.

**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**(1) Summary of Significant Accounting Policies (Continued)**

L. Customer Deposits

Meter deposits are collected from new customers before they are hooked up to the gas line. Customers in good standing are eligible to receive a deposit refund after one year.

M. Operating Revenues

Revenues are based on billing rates applied to customer usage. Meters are read monthly. Western Consulting Inc, calculates the rate to charge per MCF on a monthly basis.

N. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financials statements, no material changes to the estimates used therein were anticipated by management in the near term.

**(2) Cash and Investments**

The Utility Board's deposits in banks at December 31, 2011 and 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Utility Board is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**(2) Cash and Investments (Continued)**

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the need and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No 40.

The Utility's cash and investments at December 31, 2011 and 2010 are as follows:

	<u>Cash</u>	<u>Certificates of Deposit</u>
December 31, 2011		
Unrestricted	\$ 81,803	\$ 1,449,804
Restricted	6,410	400,000
	<u>\$ 88,213</u>	<u>\$ 1,849,804</u>
December 31, 2010		
Unrestricted	\$ 28,048	\$ 1,425,654
Restricted	8,560	400,000
	<u>\$ 36,608</u>	<u>\$ 1,825,654</u>

**(3) Restricted Assets**

The Board of Trustees established by resolution, various reserve account funds to accumulate surplus net revenue for the following purposes:

	<u>2011</u>	<u>2010</u>
Customer Deposits - Cash	\$ 6,410	\$ 8,560
Depreciation Reserve - Certificates of Deposit	300,000	300,000
Capital Improvement Reserve - Certificate of Deposit	<u>100,000</u>	<u>100,000</u>
	<u>\$ 406,410</u>	<u>\$ 408,560</u>

**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**(4) Capital Assets**

Capital assets activity for the year ended December 31, 2011 is summarized as follows:

	Balance 12/31/10	Additions	Deletions	Balance 12/31/11
Land	\$ 2,500	\$ -0-	\$ -0-	\$ 2,500
Plants and mains	1,226,096	1,089	-0-	1,227,185
Warehouse	68,861	-0-	-0-	68,861
Shop equipment	102,806	6,372	-0-	109,178
Office equipment	42,191	2,455	-0-	44,646
Office improvements	36,084	-0-	-0-	36,084
Transportation	61,558	17,500	10,760	68,298
Border station	16,232	-0-	-0-	16,232
	<u>1,556,328</u>	<u>27,416</u>	<u>10,760</u>	<u>1,572,984</u>
Less: accumulated depreciation	<u>956,468</u>	<u>39,035</u>	<u>10,760</u>	<u>984,743</u>
Capital assets, net	\$ <u>599,860</u>	\$ <u>(11,619)</u>	\$ <u>-0-</u>	\$ <u>588,241</u>
Depreciation charged to operations				\$ <u>39,035</u>

**(5) Related Party Transactions**

<u>Water Tower Note</u>	<u>2011</u>	<u>2010</u>
Unsecured note receivable from the City of Manning, due in annual installments of \$20,000 plus interest until principal is paid on October 1, 2018. The interest rate is adjusted each October 1 <sup>st</sup> to 1% higher than the maximum rate offered by Templeton Savings Bank on a twelve month certificate of deposit. The note financed water tower construction and repairs. The interest rate on October 1, 2010 was 2.55%.	\$ 139,234	\$ 159,234

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2011 and 2010**

**(5) Related Party Transactions (Continued)**

<u>MMCTSU Note</u>	<u>2011</u>	<u>2010</u>
Note receivable from the Manning Municipal Communications and Television System Utility to be used for broadband communications system. The interest rate is adjusted on July 15 <sup>th</sup> each year to a rate which is 1% higher than that offered by Templeton Savings Bank on a twelve month certificate of deposit. The interest rate on July 15, 2009 was 2.55%. Interest does not accrue on the unpaid interest balance, there are no required principal payments, and payments of principal and interest may not exceed \$100,000 per year.	\$ <u>500,000</u>	\$ <u>500,000</u>
	639,234	659,234
Less: current portion	<u>20,000</u>	<u>20,000</u>
Long-term portion	\$ <u>619,234</u>	\$ <u>639,234</u>

Municipal Officials

For the year ended December 31, 2011, the Manning Municipal Gas Department paid businesses owned by employees or officials of the Gas Utility for the following:

	<u>2011</u>	<u>2010</u>
Truck repairs	\$ -0-	\$ 447
Supplies	221	575
Fuel and truck repairs	<u>2,670</u>	<u>510</u>
	\$ <u>2,891</u>	\$ <u>1,532</u>

**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**(6) Compensated Absences**

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, which is equivalent to an average pay period. Sick leave benefits are calculated at their current rate of pay. Unused sick leave benefits will be allowed to accumulate until the employee has accrued a total of 88 hours of sick leave benefits in a twelve month period. Unused sick leave benefits will be paid to employees, if eligible, on the employee's anniversary date or upon termination of employment. Sick leave payable at December 31, 2011 and 2010 was \$5,935 and \$2,180, respectively.

Employees accrue vacation benefits beginning on the employee's hire date. Vacation time off is paid at the employee's base rate at the time of vacation. In the event that available vacation is not used by the end of the benefit year, employees will forfeit the unused time. Upon termination of employment, employees will be paid for unused vacation time that has been accrued through the last day of employment. Vacation payable at December 31, 2010 and 2009 was \$6,261 and \$9,050, respectively.

**(7) Pension and Retirement Benefits**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Through June 30, 2011, plan members were required to contribute 4.50% of their annual covered salary and the Utility was required to contribute 6.95% of annual covered payroll. Effective July 1, 2011, the IPERS rates changed and plan members contributed 5.38% of their annual covered salary and the Utility contributed 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2011, and 2010 were \$14,625 and \$12,368, respectively, equal to the required contributions for each year.



**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2011 and 2010**

**(8) Other Postemployment Benefits (OPEB)**

Plan Description - The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and -0- retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utility and plan members are \$740 for couple coverage and \$1,090 for family coverage. The same monthly premiums apply to retirees. For the year ended December 31, 2011, the Utility contributed \$48,833 and plan members eligible for benefits contributed -0- to the plan.

**(9) Purchase Commitment**

In 1993, Manning Municipal Gas Department entered into an agreement with Clayton Energy Corporation of Wahoo, Nebraska whereby Clayton will act as an independent contractor and purchase gas on behalf of the Utility. In September 1995, an addendum was made to this agreement which reiterated the primary term of the agreement to run through October 1996, and extended the secondary terms to run for three years unless terminated one year and ninety days prior to the commencement of any secondary term. The agreement is now open ended and continues to run unless either party gives notification to make a change.

**(10) Long Term Transportation Agreement**

The Manning Municipal Gas Department entered into a long term transportation contract with Ag Processing Inc. (AGP) to transport gas from Northern Natural's town border station to AGP's Manning, Iowa plant for .15 cents per MMBtu plus a \$100.00 monthly fee for a period of seven years ending November 1, 1998. This contract now continues on a year to year basis at the same rates.



**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**(11) 28E Agreement**

The Board of Trustees approved on September 13, 2007 to enter into an agreement under Iowa Code Chapter 28E to establish an agency to be known as the Public Energy Financing Authority, an Iowa Joint Powers Agency. The purposes of the Agency are to acquire and procure energy resources, or the rights to acquire thereto, including in particular natural gas and electric energy, and to provide for the transportation, transmission, distribution, sale and/or storage thereof in and to each member's service area.

**(13) Risk Management**

Manning Municipal Gas Department is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

**(14) Contingencies and Uncertainties**

The Utility provides health care benefits to employees under a self insurance, reinsured plan. The Company's maximum exposure for 2011 under the re-insurance plan is approximately \$14,000.



## **Supplemental Information**

**Manning Municipal Gas Department  
Budgetary Comparison Schedule of Revenues, Expenses and  
Changes in Balances – Budget and Actual (Cash Basis)  
For the Year Ended December 31, 2011**

	Accrual Basis	Accruals	Cash Basis
Receipts:			
Gas sales	\$ 1,065,446	\$ (1,277)	\$ 1,064,169
Non-operating	52,014	1,268	53,282
Total Receipts	<u>1,117,460</u>	<u>(9)</u>	<u>1,117,451</u>
Expenditures:			
Purchased gas	490,708	18,979	509,687
Distribution	163,048	109,951	272,999
Administrative	270,716	(36,756)	233,960
Non-operating	17,634	-0-	17,634
Contingency	-0-	-0-	-0-
Total Expenditures	<u>942,106</u>	<u>92,174</u>	<u>1,034,280</u>
Net Change in Net Assets	175,354	\$ <u>92,183</u>	\$ <u>83,171</u>
Net Assets at Beginning of Year	<u>3,298,564</u>		
Net Assets at End of Year	\$ <u>3,473,918</u>		

See accompanying independent auditor's report.

Original and Final <u>Budget</u>		Final to Actual <u>Variance</u>	
\$	2,256,400	\$	(1,192,231)
	-0-		53,282
	<u>2,256,400</u>		<u>(1,138,949)</u>
	1,600,000		1,090,313
	231,000		(41,999)
	367,900		133,940
	-0-		(17,634)
	57,500		57,500
	<u>2,256,400</u>		<u>1,222,120</u>
\$	<u>-0-</u>	\$	<u>83,171</u>





**Manning Municipal Gas Department  
Notes to Required Supplementary Information -  
Budgetary Reporting  
For the Year Ended December 31, 2011**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41. In accordance with the Code of Iowa, the Utility adopts and submits a budget on the cash basis to the City for approval in the City's required public notice and budget hearing process. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

For the year ended December 31, 2011, the disbursements of the Utility did not exceed amounts budgeted.



**Independent Auditor's Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Prepared in Accordance with  
*Government Auditing Standards***

# MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

February 15, 2012

**Lonnie G. Muxfeldt**  
Certified Public  
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Iowa  
Missouri

**Independent Auditor's Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Prepared in Accordance with  
Government Auditing Standards**

To the Board of Trustees of the  
Manning Municipal Gas Department

I have audited the accompanying financial statements of the Manning Municipal Gas Department as of and for the year ended December 31, 2011, and have issued my report thereon dated February 15, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Manning Municipal Gas Department's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the Schedule of Findings, I identified a certain deficiency in internal control over financial reporting that I consider to be a material weakness.

February 15, 2012  
Manning Municipal Gas Department  
Report on Internal Control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Manning Municipal Gas Department's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

A significant deficiency is a control deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items, I-B-11 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manning Municipal Gas Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on test and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Manning Municipal Gas Department's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the Utility's responses, I did not audit the Gas Department's responses and, accordingly, I express no opinion on them.



February 15, 2012  
Manning Municipal Gas Department  
Report on Internal Control

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Manning Municipal Gas Department and other parties to whom the Utility may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Manning Municipal Gas Department during the course of my audit. Should you have any questions concerning any of the above matter, I shall be pleased to discuss them with you at your convenience.

*Murphy Associates, CPA, P.C.*





**Manning Municipal Gas Department  
Schedule of Findings  
Year Ended December 31, 2011**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that a segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will try to use the staff in the most efficient way to achieve maximum internal control possible with the staff available.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-11     Disbursements - Two disbursements were made without board approval. The checks cleared the bank shortly thereafter. The board approved them for payment two weeks later.

Recommendation - Unless otherwise authorized, disbursements should not be dispatched prior to board approval. This is as integral a part of the disbursement process as recording the transaction or cutting the check.

Response - Disbursement procedures will be reviewed and revised as necessary.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Manning Municipal Gas Department  
Schedule of Findings  
Year Ended December 31, 2011**

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-11     Certified Budget - Total disbursements during the year ended June 30, 2011, did not exceed the amounts budgeted. The Utility adopts an annual budget on the City of Manning's fiscal year ended June 30<sup>th</sup> but presents the budgetary comparison on the calendar year.
- II-B-11     Questionable Disbursements - I noted no disbursements for parties, banquets, or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11     Travel Expense - No disbursements of Municipal Utility's money for travel expenses of spouses of Municipal Utility's officials or employees were noted.
- II-D-11     Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount	
Ken Spies, Spies Fur Co.	Supplies	\$	221
Allen Rix, BP Amoco	Fuel	\$	2,670

The transactions with management don't appear to represent conflicts of interest since they did not exceed \$2,500 during the year. The transactions with the Utility Trustee appear to represent a conflict of interest since they exceeded \$2,500 during the year.

- II-E-11     Bond Coverage - Surety bond coverage of Municipal Utility's officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**Manning Municipal Gas Department  
Schedule of Findings  
Year Ended December 31, 2011**

**Part II: Other Findings Related to Statutory Reporting (Continued):**

II-F-11     Deposits and Investments - The Utility had a certificate of deposit held in a depository outside the state. Chapter 12C of the Code of Iowa requires Utility deposits be held in depositories located in the county in which the Utility is located or in an adjoining county, but if there is no depository in the county in which the Utility is located or in an adjoining county, then in any other depository located in this state which shall be selected as a depository by the Board of Trustees.

Recommendation - The Utility should only deposit funds in allowable depositories.

Response - The certificate of deposit was transferred in state upon maturity. We will review and follow our policies and deposit only in allowable depositories in future.

Conclusion - Response accepted.

II-G-11     Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not

